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Office of the Legislative Auditor
MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE

Auditor's Opinion Letter and
Agency Financial Statements

Fiscal Year Ended June 30, 1986

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DEPARTMENT OF COMMERCE

Auditor's Opinion Letter and
Agency Financial Statements

Fiscal Year Ended June 30, 1986

86-36

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

Members of the audit staff involved in this audit include: Lorry
Parriman, Donald Davies, and Wayne Guazzo.



STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

September 1986

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

This audit report contains our opinion letter on the financial statements of the Montana Health Facility Authority of the Department of Commerce for the fiscal year ended June 30, 1986. We performed the audit solely to express an opinion on the Authority's financial statements. Any findings disclosed by our audit were discussed with management and will be appropriately reported as part of our scheduled biennial audit of the Department of Commerce. Therefore, this report contains no recommendations.

We would like to thank the administrator, his staff, and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seocat", written over a horizontal line.

Scott A. Seocat
Legislative Auditor

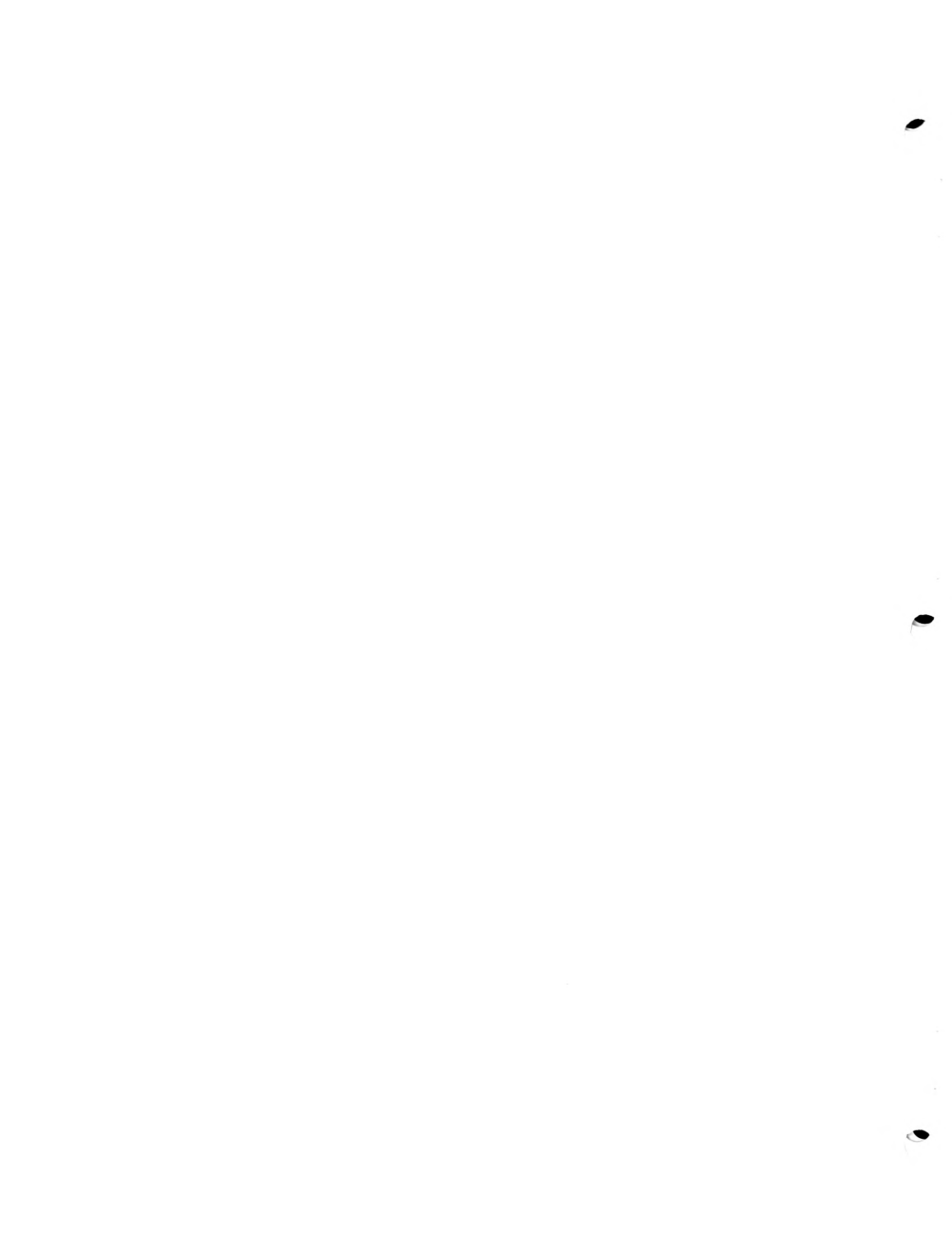


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APPOINTED AND ADMINISTRATIVE OFFICIALS

MONTANA HEALTH FACILITY AUTHORITY

BOARD MEMBERS

		<u>Term Expires</u>
Mary D. Munger, Chairman	Helena	June 30, 1987
Charles V. Shewey, Vice Chairman	Bozeman	June 30, 1989
Sidney K. Brubaker	Terry	June 30, 1988
Harold Poulsen	Great Falls	June 30, 1988
R.H. Robinson	Missoula	June 30, 1988
Dr. Amos Little, Jr.	Helena	June 30, 1989
Vacant		

AUTHORITY STAFF

Jack Nielson	Administrator
Helen Julian	Administrative Assistant
Tracy Hayes	Secretary

INTRODUCTION

We performed a financial audit of the Montana Health Facility Authority (MHFA) of the Department of Commerce for the fiscal year ended June 30, 1986. The objective of the audit was to determine if the authority's financial statements present fairly its financial position at June 30, 1986, and the results of its operations and changes in financial position for the fiscal year then ended.

BACKGROUND

The Montana Health Facility Authority (MHFA) was established during the 1983 Legislative Session to provide low cost financing of capital expenditures for nonprofit Montana health institutions. MHFA is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority is attached to the Department of Commerce for administrative purposes. Financial accounting for the authority's operations is performed by the department's Management Services Division. The authority currently administers the following two programs.

The Pooled Loan Program is designed to provide financing and refinancing for land, buildings, equipment, and improvement costs of qualified health institutions. Under this program, the authority issues debt to establish a pool of funds for loans to participating institutions. The bond indenture provides for the trustee to invest the bond proceeds until needed for loans to project participants. The proceeds are loaned to qualifying health institutions at rates which reflect the rates paid by the authority on the bonds plus the ongoing program costs. There was one bond issue for the Pooled Loan Program totaling \$66.9 million issued during the audit period. A portion of these bonds was used to refund outstanding Pooled Loan Program bonds totaling \$23.5 million.

Pooled Loan Program bonds outstanding have a maturity date in 2015. This feature will allow the MHFA to reloan principal payments received under outstanding loan agreements, providing a

pool of money which the MHFA can use to fund low interest loans for eligible health facilities until 2015.

The Single Project Financing Program authorizes tax exempt financing on a project-by-project basis. Bonds or notes are issued for each of the individual projects under this program. The authority has issued debt totaling \$19,640,000 for three projects under this program ranging from \$440,000 to \$18 million. Interest and other associated costs are paid by the participating institutions.



AUDITOR'S OPINION LETTER
AND AGENCY FINANCIAL STATEMENTS



STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial statements of the Enterprise Fund of the Montana Health Facility Authority as of and for the year ended June 30, 1986, as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described more fully in Note 2, the financial statements present only the Enterprise Fund of the Montana Health Facility Authority and are not intended to present fairly the financial position or the results of operations and changes in financial position of the state of Montana in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly the financial position of the Enterprise Fund of the Montana Health Facility Authority at June 30, 1986, and the results of that fund's operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

Handwritten signature of James Gillett in cursive.

James Gillett, CPA
Deputy Legislative Auditor

August 29, 1986



MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
BALANCE SHEET - ENTERPRISE FUND
JUNE 30, 1986

ASSETS

Cash	\$115,249
Accounts Receivable	682
Fixed Assets (net of accumulated depreciation)	<u>19,007</u>
Total Assets	<u>134,938</u>

LIABILITIES AND RETAINED EARNINGS

Liabilities:	
Compensated Absences	\$ 5,971
Accounts Payable	<u>6,812</u>
Total Liabilities	12,783
 Retained Earnings	 <u>122,155</u>
 Total Liabilities and Retained Earnings	 <u>134,938</u>

The accompanying notes to the financial statements are an integral part of this statement.



MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

REVENUE

Fee Income	\$223,671
Total Revenues	<u>223,671</u>

EXPENSES

Personal Services	73,314
Contracted Services	9,150
Supplies and Materials	3,665
Communications	4,724
Travel	9,516
Rent	5,349
Repairs and Maintenance	1,008
Other Expenses	9,357
Depreciation - Equipment	1,264
Prior Year Expenditures Adjustment	<u>(2,010)</u>
Total Expenses	<u>115,337</u>

Revenue Over Expenses	108,334
Retained Earnings Beginning of Period	13,821
Retained Earnings End of Period	<u><u>\$122,155</u></u>

The accompanying notes to the financial statements are an integral part of this statement.



MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

SOURCES

From Operations:	
Revenues Over Expenses	\$108,334
Depreciation	1,264
Liability for Compensated Absences	2,965
Increase in Accounts Payable	<u>6,642</u>
Cash Provided by Operations	<u>119,205</u>
Total	<u>119,205</u>

USES

Increase in Accounts Receivable	682
Purchase of Fixed Assets	12,462
Decrease in Accrued Expenditures	<u>2,444</u>
Total	<u>15,588</u>

Increase (Decrease) In Cash	\$103,617
Cash - Beginning of Period	<u>11,632</u>
Cash - End of Period	<u><u>\$115,249</u></u>

The accompanying notes to the financial statements are in integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1986

1. AUTHORIZATION

The Montana Health Facility Authority (MHFA) is a quasi-judicial board created by the 48th Montana Legislature with health care cost containment as its purpose. In the fulfillment of this purpose, the Authority provides a variety of capital financing and refinancing alternatives to eligible health facilities in Montana. The Authority may in each biennium issue bonds and notes in an aggregate principal amount not to exceed \$150 million, exclusive of bonds or notes issued to refund its outstanding bonds or notes. Obligations issued by the Authority do not constitute a debt, liability, obligation, or pledge of the faith and credit of the State but are payable solely from the revenues or assets of the health institution being financed. The Authority is attached to the Montana Department of Commerce for administrative purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Montana Health Facility Authority uses the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

B. Reporting Entity

The preceding financial statements are prepared from the Statewide Budgeting and Accounting System (SBAS) with adjustments and include the financial activity of the Montana Health Facility Authority (MHFA). These statements are summaries of entries in SBAS recorded for the MHFA and exclude any entries recorded for other agencies. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations, or changes in financial position of the state of Montana.

C. Nature of Fund

The fund maintained by the Authority, which conforms with authorizing legislation and Authority resolutions, is described as follows:

Enterprise Fund

The Enterprise Fund is used to account for operations (a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or (b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

D. Loans

Before bonds were issued, eligible health facilities indicated in writing their intent to borrow all of the Authority's available loan funds. The loans, in many instances, are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the Authority and utilized by the health



facilities. In all remaining transactions, loan payments are secured by standby letters of credit from rated banks.

E. Project Financing

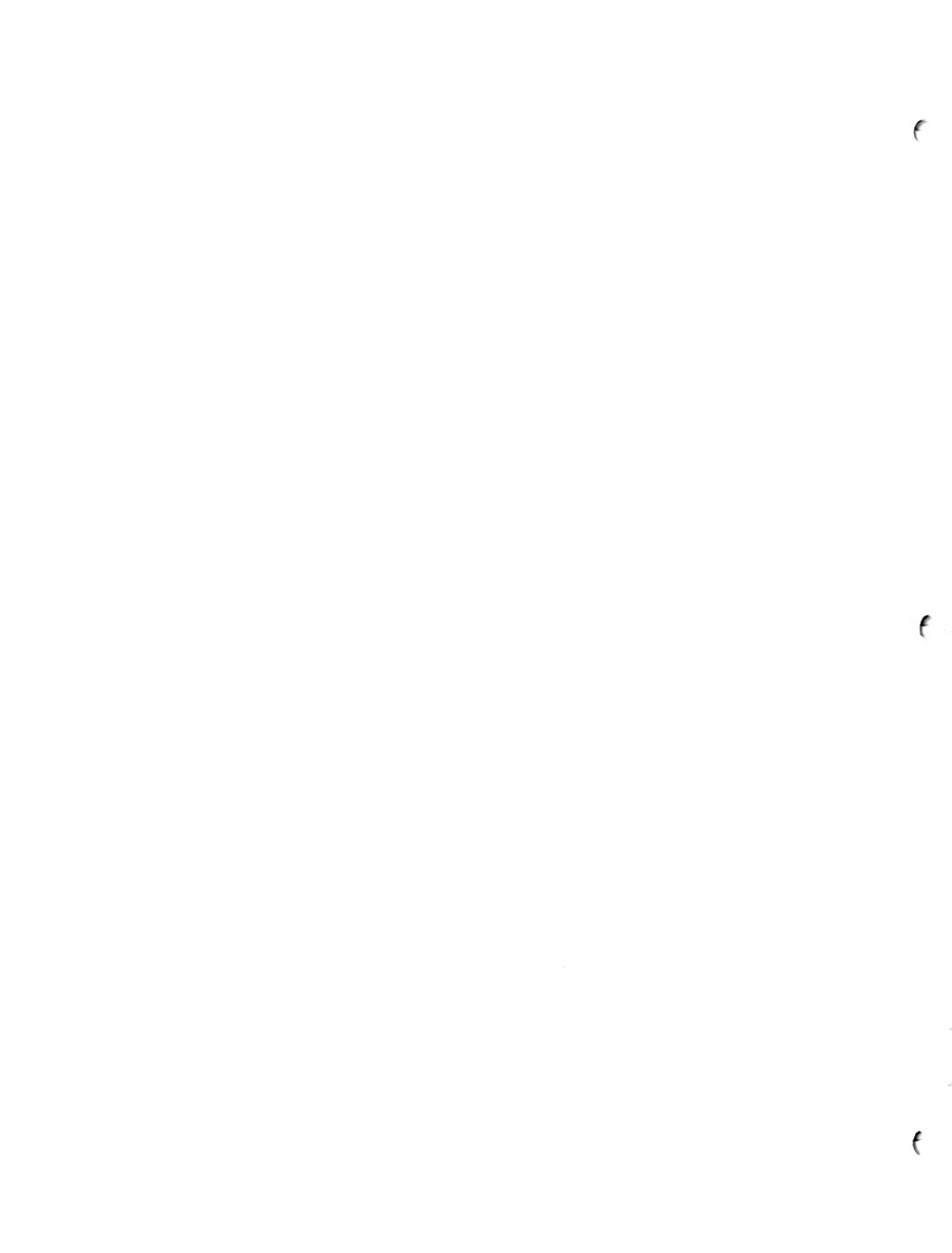
Resolutions adopted by the Authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by participating health care institutions, construction costs, and issuance costs. During fiscal year 1986, specific funds established by agreements were held by trustees and another participating financial institution. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

F. Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is provided for using the straight-line method over the respective estimated useful lives of the assets.

G. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The amount of supplies inventory on hand at June 30, 1986, was immaterial.



3. REVENUE BONDS PAYABLE

<u>Issue</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Amount</u>
Health Care Revenue Bonds (Pooled Loan Program) Series 1985A Variable Rate Revenue Bonds*	2015	Variable Rate Demand Bonds	\$66,900,000
Billings Deaconess Hospital Series 1985 Hospital Facilities Variable Rate Revenue Bonds	1989-2015	Variable Rate Demand Bonds	<u>18,000,000</u>
Revenue Bonds Outstanding			\$84,900,000
Bonds Payable			\$84,900,000

In December 1985, the Montana Health Facility Authority (MHFA) issued variable rate demand bonds of \$66,900,000 for the Pooled Loan Program. A portion of these bonds was used to refund outstanding bonds totaling \$23,500,000.

Stated maturities on Revenue Bonds Payable are as follows:

Year ended June 30...

1989	\$ 100,000
1990	100,000
1991	100,000
1992	100,000
1993	100,000
1994	100,000
1995	100,000
1996-2000	1,200,000
2001-2005	2,300,000
2006-2010	4,600,000
2011-2015	<u>76,100,000</u>

\$84,900,000

The bonds are payable solely from loan repayments to be made by health institutions pursuant to loan agreements and, further, from the funds created by the Indenture and investment earnings thereon.



The bonds do not constitute a debt or liability of the State of Montana or of any political subdivision thereof.

4. REVENUE NOTES PAYABLE

<u>Issue</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Amount</u>
West Mont Home Health Services, Inc. Series 1985 Hospital Revenue Note	1986-2004	2% Under Bank Floating Rate	<u>\$427,522</u>
Revenue Notes Outstanding			\$427,522

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements. The notes do not constitute a debt or liability of the State of Montana or of any political subdivision thereof.

5. EMPLOYEES' RETIREMENT SYSTEM

The MHFA employees are covered by the Public Employees' Retirement System (PERS). This plan is administered by the State of Montana. Under PERS, the state contributes 6.417 percent of an employee's gross wages to PERS. All eligible employees contribute 6.0 percent of gross wages. The Authority's contribution to PERS for the fiscal year ended June 30, 1986 was \$3,662.

The state's policy is to fund accrued pension costs. The unfunded past service costs and the actuarially computed value of the vested benefits are not readily available for the members of the plan employed by the Authority. The Public Employees' Retirement System was actuarially sound at June 30, 1984.



6. ANNUAL LEAVE AND SICK LEAVE

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave.



